

Message Text

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C O N F I D E N T I A L STATE 113771

E.O. 11652: GDS

TAGS: MARR, NATO

SUBJECT: INFRASTRUCTURE--USE OF REALISTIC CURRENCY EXCHANGE

-- RATES TO ESTABLISH VALUE OF INFRASTRUCTURE

-- ACCOUNTING UNIT (IAU)

REFS: (A) US NATO 1175; (B) STATE 057023

1. WE CAN CONCUR IN USE OF NEW NATO INFRASTRUCTURE
ACCOUNTING SYSTEM PROPOSED REFTEL A ONLY ON BASIS THAT IT
IS A TEMPORARY, ONE-YEAR, PROCEDURE TO BE FOLLOWED WHILE
A PREFERABLE ALTERNATIVE IS NEGOTIATED. IT SHOULD BE
MADE CLEAR TO OTHER INFRASTRUCTURE COMMITTEE MEMBERS
THAT U.S. WILL NOT ACCEPT PROPOSED ACCOUNTING SYSTEM
ON ANY BUT AN INTERIM BASIS.

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2. PRINCIPAL OBJECTIONS TO THE PROPOSAL ARE AS FOLLOWS:

A. THERE IS NO APPARENT ECONOMIC OR FINANCIAL BASIS FOR
THE USE OF A SYSTEM BASED ON THE BELGIAN FRANC (BF). FEW
INFRASTRUCTURE PROGRAM CONTRACTS ARE DENOMINATED IN BF
AND VERY FEW EXPENDITURES ARE MADE IN BF. IN ADDITION,
ONLY A SMALL PORTION OF THE PROGRAM'S FUNDING IS PAID IN

BF. AND THE PROPOSED SYSTEM ASSUMES THAT BOTH THE BF AND THE "SNAKE" WILL BE MORE "STABLE"--IN TERMS OF MAXIMIZING THE OVERALL VALUE OF THE INFRASTRUCTURE PROGRAM--THAN ANY ALTERNATIVE. THERE IS SIMPLY NO BASIS ON WHICH TO MAKE SUCH AN ASSUMPTION. SHOULD THE "SNAKE" DEPRECIATE RELATIVE TO OTHER MAJOR CURRENCIES, THE IAU WOULD SUFFER A LOSS IN VALUE RELATIVE TO THOSE CURRENCIES. AND SHOULD THE "SNAKE" BREAK UP, THE IAU WOULD CEASE TO HAVE ANY BASIS OF VALUATION.

B. THE PROPOSAL WOULD MINIMIZE THE EXCHANGE RISKS FOR THOSE COUNTRIES WHICH PARTICIPATE IN THE EUROPEAN "SNAKE"--COUNTRIES WHICH ACCOUNT FOR LESS THAN HALF OF TOTAL INFRASTRUCTURE CONTRIBUTIONS--AT THE EXPENSE OF THE US AND THE REMAINING SIX CONTRIBUTING COUNTRIES. THESE COUNTRIES, INCLUDING THE US--IN WHOSE CURRENCIES A SIZABLE PERCENTAGE OF EXPENDITURES ARE CONDUCTED--WOULD BEAR A DISPROPORTIONATE SHARE OF THE RISKS ASSOCIATED WITH EXCHANGE RATE CHANGES. SUCH A SITUATION CLEARLY WOULD BE INEQUITABLE, COULD IMPOSE AN UNWARRANTED FINANCIAL BURDEN ON THE US AND OTHER NATO MEMBERS WHICH DO NOT PARTICIPATE IN THE "SNAKE". IN ADDITION, IT WOULD BE INCONSISTENT WITH A PRINCIPLE THAT HAS BEEN ACCEPTED IN THE IMF WITH VALUATION OF THE SDR IN TERMS OF A "BASKET" OF SIXTEEN CURRENCIES--THAT ALL COUNTRIES SHOULD SHARE EXCHANGE RISKS.

C. THE PROPOSED SYSTEM COULD, THEREFORE, LEAD TO THE CONFIDENTIAL

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U.S. ASSUMING MORE THAN OUR AGREED "SHARE" OF INFRASTRUCTURE FINANCING IN TERMS OF THE U.S. DOLLAR--A SHARE IN EXCESS OF THAT CONTEMPLATED BY CONGRESS.

3. IF THE GOAL IS TO PROTECT THE VALUE OF THE PROGRAM FROM LOSSES RESULTING FROM EXCHANGE RATE CHANGES, IT WOULD APPEAR THAT THE RISK OF LOSS COULD BEST BE MINIMIZED THROUGH THE USE OF AN IAU VALUED ON THE BASIS OF A BASKET OF CURRENCIES. FOR EXAMPLE, A "BASKET" COULD BE PUT TOGETHER CONSISTING OF THOSE CURRENCIES IN WHICH INFRASTRUCTURE EXPENDITURES ARE MADE, WITH WEIGHTS ASSIGNED ROUGHLY CORRESPONDING TO EXPENDITURE PATTERNS. SUCH AN APPROACH WOULD BE CONSISTENT WITH THE "BASKET" METHOD OF VALUING THE SDR REFERRED TO ABOVE.

4. RECOMMEND THAT EFFORTS COMMENCE IN THE NEAR FUTURE TO FORMULATE AND NEGOTIATE AN EQUITABLE AND ECONOMICALLY SOUND LONG-TERM ACCOUNTING SYSTEM, ALONG THE LINES MENTIONED ABOVE, THAT MEETS THE NEEDS OF THE INFRASTRUCTURE

COMMITTEE AND IS CONSISTENT WITH U.S. INTERNATIONAL

MONETARY OBJECTIVES. TREASURY STANDS READY TO PROVIDE
ASSISTANCE IN THIS EFFORT. REQUEST YOUR COMMENTS ON HOW
BEST TO PROCEED IN THIS EFFORT.
CHRISTOPHER

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Message Attributes

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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
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Drafter: MR. DALLARA
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